INSTITUTE *of* STATISTICS
Oxford

Bulletin Vol. 12 *November, 1950* *No. 11*

JUVENILE LABOUR IN OXFORD

(*a*) INTRODUCTION

In previous articles the position of juvenile labour in Great Britian as a whole has been investigated.[1] A number of questions were raised by this study, of which the most important were the occupational distribution of juvenile labour, the turnover (and reasons for it) of juveniles, and the extent of apprenticeship to-day.

To throw light on these questions, the Youth Employment department of the Ministry of Labour in Oxford was approached and agreed to tabulate the information available from their record cards in a suitable statistical form.[2] The present article presents an analysis of these figures. No information about individuals was asked for or disclosed.

Individual record cards for all leavers from Secondary Modern and Technical Schools in Oxford were available for the past three years (whether they consulted the service or not). On each the age, sex and type of school are recorded, with details of the industry and occupation entered, and method of placing.

In some of the cards information is also available on the parent's occupation; and in some an up-to-date record of job changes is available.

The investigation falls into three parts: first, a survey of the first jobs obtained by school leavers; second, the occupations of fathers and children; and third, the turnover in industry.

(*b*) THE FIRST JOB ON LEAVING SCHOOL

1. *Introduction*

All those who left school in the three years ending on July 1st, 1950, and were aged under 16 on July 1st, 1947, are covered. The figures are available for boys and girls separately, for those leaving Secondary Modern and Technical Schools. They have been separated into those placed by the Youth Employment Officer, and those who found work themselves, and into three age groups (aged 15, 16 and 17 on July 1st, 1950). Table I shows the numbers covered in these various classifications. The survey covers 1,456 boys (1,374 from Secondary Modern Schools) and 1,476 girls (1,438 from Secondary Modern Schools).

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[1] BULLETIN, Vol. 11, Feb., Sept. and Nov., 1949.

[2] A great debt of gratitude is owed to the officers and staff of the Ministry who not only undertook the labour of tabulation, but throughout helped in the planning of this survey and in its interpretation.

As the age of leaving Secondary Modern Schools is generally 15, and that of leaving Technical Schools generally 16, the age-groups correspond roughly to those who left in the last three years (two years in the case of Technical Schools).

The numbers of boys leaving each year have remained similar, but the proportions placed by the Y.E.O. have changed. For boys the proportions have been 31, 39 and 42 per cent; for girls 34, 42 and 44 per cent. The difference between the sexes is not significant.[1]

The use of the Youth Employment Service is therefore increasing, an achievement at a time of labour shortage. Twenty-five of the boys leaving Secondary Modern Schools, and 15 of the girls went against the advice of the Y.E.O. in choosing their job, a remarkably small proportion. But these figures show no pronounced industrial or occupational pattern; and, in view of the turnover of juveniles, are probably not of great significance.

2. *Industrial Analysis*

Table II shows the industries entered. The classification was chosen to suit the industrial structure of Oxford.

Boys from Technical Schools mostly entered the Engineering and Building industries; the girls a wider variety of trades.

From the Secondary Modern Schools, nearly half the boys, but only 12 per cent of the girls, entered Engineering or Building. 32 per cent of girls entered the Distributive Trades, but only 12 per cent of the boys (of whom the majority, in contrast to the girls, entered Food Distribution). Very few girls, but a considerable numbers of boys, entered Agriculture, Electrical Contracting, Woodworking and Building; while a fair number of girls entered Domestic Service, Laundries, Hairdressing, Hospitals and Nurseries (mainly nurseries) and the Needle Trades.[2] Many more girls than boys entered Printing (mostly bookbinding).

Over the period there were a number of changes. The number of boys entering ‘ Other Engineering ’ has fallen, while the number entering Building has risen. A relatively large proportion of those now aged 16 entered Printing, and a small proportion Garages. A relatively small proportion of the latest leavers went into Communications (mainly the G.P.O.).

Among the girls, the decline in the total number of leavers is reflected in fewer entrants to Printing, Domestic Service and Nurseries, and (over part of the period) fewer entrants to Motor Manufacture, Building and Communications.[3] There has, among the latest school leavers, been an increased entry into ‘ Other Engineering ’, and Baking. Variation is considerable in entrance to Hotels, Laundries and Food Distribution.

Five hundred and sixteen boys from Secondary Modern schools were placed compared to 858 who found work. Far more found work than were placed in Motor Manufacture, Distribution, Agriculture, Baking, and Miscellaneous Trades. The rise in the numbers placed over the period is most conspicuous in ' Other Engineering ' and Woodworking.

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[1] The difference between proportion is 1.2 σ

[2] The numbers of boys entering the latter 3 industries are included in ‘ other industries’ in the table.

[3] In the case of Domestic Service, due to its unpopularity ; in the case of the other trades, generally due to fewer vacancies.

Of the girls, more found work on their own than were placed in Motor Manufacture (82 compared to 13). Other Engineering, the Distributive Trades, Laundries, Hotels, Domestic Service, Baking, Hairdressing and Nurseries. The contrary was true of Printing. The increase in numbers placed over the period is most noticeable in Distributive and Miscellaneous Trades. There is therefore an industrial pattern in the proportions placed by the Youth Employment Service, depending, no doubt, partly on traditional methods of recruitment and partly on present relations (*e.g.* existence of Joint Apprenticeship Committees).

3. *Occupational Analysis*

The occupational classification adopted consists in the majority of cases of three categories (1) Apprentices, Learners, etc., (2) Semi-Skilled workers and Labourers, (3) Clerical Workers. In a few industries this was not possible. For the purpose of overall analysis the first category incorporates cooks and nurses, and the second shop assistants, other (non-clerical) distributive workers, non-clerical professional workers, laundry workers (other than clerical), waiters, and all agricultural and domestic workers.

It will be noted that 50 per cent of the boys entered semi- or unskilled occupations and 41 per cent Apprenticeships, etc. The proportion of Technical School Leavers entering apprenticeships, etc., 74 per cent, was even higher. Sixty-three per cent of the girls entered semi- or unskilled occupations, and 31 per cent (including the majority of Technical School leavers) clerical work.

The proportion of boys entering Apprenticeships was smaller (and the proportion entering unskilled jobs correspondingly higher) among those who found work on their own than amongst those placed. The pattern is similar, but the differences much smaller, among the girls.

Changes over the period have not shown a consistent pattern, apart from an increase in the proportion of boys finding work on their own who entered apprenticeships.

The proportion of boys entering apprenticeships varies widely from industry to industry; more than three quarters in Building, Printing and Electrical Contracting, more than half in Garages and Other Engineering, less than a quarter in Transport and Communications and in Motor Manufacture. Seventy-one per cent of entrants to catering became waiters, etc.; 73 per cent in Food Distribution, and 59 per cent in non-food Distribution, shop assistants.

The few girls finding apprenticeships did so in Hairdressing, the Needle Trades, and Baking, while most of the entrants to Nurseries and Hospitals became nurses.

The proportion of girls entering clerical jobs varied from the big majority in Motor Manufacture, Electrical Contracting, Building and Professional, to a small proportion in Distribution, Printing, Baking and Hospitals. Over 70 per cent of entrants to the Distributive Trades became Shop Assistants, 75 per cent of the entrants to Catering, Waiters, etc.

The pattern described is fairly similar for the whole of the period and for both those who were placed and those who found work. But a higher proportion of the boys who were placed than of those who found work obtained apprenticeships in Garages, Other Engineering and Building.

The most interesting feature of the figures is the high proportion of boys entering apprenticeships and learnerships (it includes those who enter preparatory training before taking an apprenticeship at the age of 16). If clerical occupations and some agricultural workers are also included, the demand for skill appears very high.

In 1928 an Enquiry into Apprenticeship[1] drew attention to the decline which had taken place in apprenticeship, due to the spread of mass production methods. It gave the proportion of male workers under 21 in apprenticeships and learnerships as about one fifth.

It is generally believed that this decline continued after that date. The proportion shown in our sample is higher than other pre-war figures available (see *e.g.* Bowley in Economica, 1935).

After the war efforts were made by the Government to revive apprenticeship schemes in many industries. Our figures suggest they have had some success. The raising of the school leaving age will also probably have had some effect.

Oxford, with its concentration in Engineering and Building, may not of course be typical of the country as a whole. It was among the first places in the country to set up Joint Apprenticeship Committees in Building and Engineering. But, in the motor industry, it has an example of the main factor —mass production technique—which the Enquiry found responsible for the decline in apprenticeship (and, indeed, the proportion entering apprenticeships is much smaller than in other engineering).

A few of those entering apprenticeships do not complete them (a small proportion it seems); on the other hand, others enter apprenticeships later. Nevertheless, our results are surprising, particularly in view of the serious interpretation put, in some quarters, on the decline in the difference between the earnings of skilled and unskilled workers in industry.

4. *Comparison with the Parents Occupations*

For a number of boys and girls, though not for all, we have particulars of father's occupation. The sample, about two-fifths of the total number of boys, and one eighth of the total number of girls, may be biased. Fourteen per cent of the boys in the sample entered clerical occupations, compared to 8 per cent of all boys; while 45 per cent entered semi- or unskilled occupations as against 53 per cent of all boys. Among the girls, again 54 per cent in the sample entered clerical occupations, compared to 40 per cent of all girls ; and 40 per cent of the sample entered semi-or unskilled occupations compared to 64 per cent of all girls.

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[1] See Ministry of *Labour Gazette*, July 1928, for a summary of the 8-volume report.

The classification also is not precise. Nevertheless, the results are of interest, because of the paucity of information on the subject. We confine the analysis to Secondary Modern School leavers, as we have particulars for only very few Technical School leavers.

The majority of sons of skilled manual workers (60 per cent) entered apprenticeships and a further 10 per cent clerical occupations. On the other hand the majority (56 per cent) of sons of semi- or unskilled manual workers entered semi- or unskilled occupations, with 30 per cent entering apprenticeships and 14 per cent clerical occupations. The sons of professional and clerical workers and shop assistants entered the various occupations in more even proportions ; but the proportion entering clerical etc. occupations was much higher than amongst the sons of those of other occupations.

The majority of girls entered clerical occupations, whatever their father's occupation; but the proportion entering semi- or unskilled occupations was highest amongst children of fathers of these occupations.[1]

(c) THE TURNOVER OF JUVENILE LABOUR

1. *Introduction*

Data on turnover are available for only some of the boys and girls. For these we know the number of times they have changed their job, the reason they gave for leaving their last job, and the reasons given for leaving most of their previous jobs.

The sample (different from that used in Section 4 above) may, of course, not be representative. It covers only those boys and girls who consult the Y.E.O. on a new job or keep in touch through ' open evenings '; and both those who do not keep in touch and those who have not changed their jobs are excluded. The reasons are often vague (and sometimes, no doubt, rationalisations) and the classification cannot be precise.

2. *The overall picture.*

We have 291 boys from Secondary Modern Schools who have changed their job; 212 of these have changed 1 or 2 times, and 54, 3 or 4 times; 202 left voluntarily while 89 were dismissed (the proportion dismissed increasing roughly according to number of job changes); 45 are aged 15, and 80 aged 16. Of those aged 17 (who have had most time to change jobs), 12 per cent have changed their jobs more than 4 times and 24 per cent 3 or 4 times.

Of the 334 girls from Secondary Modern Schools, 221 have changed 1 or 2 times, and 69 3 or 4 times. Girls have therefore changed jobs more often than boys, but the difference is not statistically significant.[2] : 255 left voluntarily, a higher proportion than among the boys[1] and the tendency for the proportion dismissed to increase according to number of job changes is not so clear. The average age of the girls is rather higher than that of the boys.

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[1] These figures may be compared with an analysis by Professor Bowley (' The occupations of Fathers and Their Children '. Economica, 1935). Our results are not dissimilar to his, except that a larger proportion of the sons of skilled fathers entered skilled occupations in our sample (but his figures referred not to first job, but job at the time of the survey).

[2] The difference between proportions is 1.9 σ

For all of these boys and girls we have reasons for changing their last job. We also have reasons for 747 previous job changes, probably the vast majority.

3. *Reasons for change of job*

The reasons for leaving voluntarily have been classified into (1) Not enough money, (2) Inconvenient hours, and bad for health, (3) No prospects, (4) Left district, and (5) Others. Reasons for dismissal are given as (1) Redundant, (2) Unsuitable, and (3) Industrial misconduct.

Among boys, the greater the number of job changes, the more give 'not enough money' as their reason, while fewer give 'no prospects' or 'leaving the district'. A much higher proportion of those changing more than 4 times give miscellaneous reasons, while a higher proportion of those with 3 or 4 changes give reasons of hours and health. Among those dismissed no clear pattern is observable, apart from the smallness of the proportion of those with 3 or 4 changes dismissed on grounds of redundancy.

Of the girls, the most noteworthy features are the high proportion giving miscellaneous reasons, and the increase with number of changes in the proportion giving hours and health reasons. Industrial misconduct appears to be reason for dismissal increasing in frequency with the number of changes. Redundancy is a more frequent reason for dismissal of girls, than of boys.

Differences between reasons for changing the last and the previous jobs are not considerable.

The most significant feature revealed is the high proportion giving miscellaneous reasons. The cause of this appears to be very individual reasons in a number of cases and a considerable number of vague reasons not classifiable in a clear way (*e.g.* general boredom or dissatisfaction with the job). Amongst boys the call-up, may, in part, explain the latter.[2] There may also be a praiseworthy tendency to experiment to find the most suitable job, while many of the jobs available to boys and girls (even some of the apprenticeships) may be unexciting and monotonous.

(*d*) CONCLUSION

The results of this survey are, of course, applicable only to Oxford, but we believe they will be of interest elsewhere. The short period for which the figures are available, the lack of precision in the classifications in some cases, and the small numbers in others, necessitate caution in drawing conclusions from the figures presented.

R. GODSON.

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[1] The difference between proportions is 2.4 σ

[2] See *The Education of the Young Worker*, Oxford University Department of Education.

TABULAR APPENDIX

Table I

Total Number of School Leavers in Oxford in three years ending July 1st, 1950, by age at July 1st, 1950, Type of School, and Method of Entry.

A. Boys	*S. Modern*		*Technical*	
Age	*Placed*	*Found work*	*Placed*	*Found work*
15	201	280	—	—
16	176	270	19	17
17	139	308	27	19
All ages	516	858	46	36
B. Girls				
15	192	241	—	1
16	204	281	8	20
17	176	344	5	4
All ages	572	866	13	25

Table II

All School Leavers, by Industry entered, and type of School

	Boys		*Girls*	
Industry	*S. Modern*	*Technical*	*S. Modern*	*Technical*
Motor Manufacture	183	12	95	4
Garages	93	1	14	1
Other Engineering	161	14	55	2
Building	181	27	13	3
Food Distribution	90	—	163	2
Other Distribution	71	2	302	5
Agriculture, Gardening, etc. ...	92	1	3	—
Professional	30	3	49	5
Printing	83	2	203	4
Electrical Contracting	66	4	1	—
Woodworking	70	1	4	—
Laundries	4	1	40	—
Hotels, Colleges, Restaurants, etc.	24	—	60	1
Private Domestic Service	1	—	49	—
Transport and Communications	78	2	51	2
Baking and Confectionery ...	20	—	25	1
Hairdressing*	—	—	33	1
Hospital and Nursery*	—	—	33	1
Needle Trades*	—	—	22	1
Other Industries	127	12	223	5
All Industries	1374	82	1438	38

* Available for girls only.

TABLE III

All School Leavers
By Occupation Entered, Age at July 1st, 1950,
Method of Entry and Type of School

	Apprentices Learners, etc.	*Semi-skilled and Labourers*	*Clerical*	*Apprentices Learners, etc.*	*Semi-skilled and Labourers*	*Clerical*
A. Boys		*S. MODERN*			*TECHNICAL*	
Placed aged 15 ...	104	81	16	—	—	—
„ „ 16 ...	88	77	11	12	3	4
„ „ 17 ...	79	48	12	21	2	4
Total placed ...	271	206	39	33	5	8
Found work aged 15	97	162	21	—	—	—
„ „ „ 16	85	167	18	13	1	3
„ „ „ 17	85	188	35	15	2	2
Total found work	267	517	74	28	3	5
Placed and found work	538	723	113	61	8	13
B. Girls						
Placed aged 15 ...	8	127	57	—	—	—
„ „ 16 ...	5	137	62	1	3	4
„ „ 17 ...	9	123	44	—	2	3
Total placed ...	22	387	163	1	5	7
Found work aged 15	11	145	85	—	—	1
„ „ „ 16	30	171	80	—	1	19
„ „ „ 17	23	221	100	—	—	4
Total found work	64	537	265	—	1	24
Placed and found work	86	924	428	1	6	31

TABLE IV

S. Modern School Leavers,
Proportions entering each occupation in separate industries

Industry	*% of Boys*			*% of Girls*		
	Apprentices	*Semi-skilled and Labourers*	*Clerical*	*Apprentices*	*Semi-skilled and Labourers*	*Clerical*
Motor Manufacture ...	24	54	22	Nil	15	85
Garages	54	46	Nil	Nil	71	29
Other Engineering ...	53	42	5	Nil	40	60
Building	76	21	3	Nil	Nil	100
Food Distribution ...	—	73[2] 27[3]	Nil	—	73[2] 22[3]	5
Other Distribution ...	—	59[2] 30[3]	11	—	72[2] 20[3]	8
Agriculture and Gardening, etc. ...	—	100[4]	—	—	100[4]	—
Professional	—	40[3]	60	—	14[3]	86
Printing	77	13	10	Nil	93	7
Electrical Contracting	79	18	3	Nil	Nil	100
Woodworking ...	47	51	2	Nil	75	25
Laundry	—	100[5]	Nil	—	90[5]	10
Hotel, College, Restaurant, etc.	25[6]	71[7]	4	15[6]	75[7]	10
Domestic Service ...	—	100[8]	—	—	100[8]	—
Transport and Communications ...	19	73	8	Nil	57	43
Baking and Confectionery	35	65	Nil	12	84	4
Hairdressing[1] ...	—	—	—	94	6	Nil
Hospital and Nursery[1]	—	—	—	70[9]	21[10]	9
Needle Trades[1] ...	—	—	—	68	32	Nil
Other Industries ...	35	53	2	2	54	44
All Industries ...	39	53	8	6	64	30

Notes. — No such category. *Nil,* None.

[1] Girls only.
[2] Shop Assistants.
[3] Other.
[4] All Agricultural Workers.
[5] Production Workers.
[6] Cooks.
[7] Waiters, etc.
[8] All Domestic Servants.
[9] Nurses.
[10] Domestics.

TABLE V

Occupations of S. Modern School Leavers Compared to Fathers' Occupations.
(Percentages in brackets)

	Fathers' Occupation					
	Skilled Manual		*Semi-skilled and Labourers*		*Professional Clerical and Shop Assistant*	
A. Boys						
Apprentices, Learners, etc.	102	(60)	94	(30)	28	(40)
Semi-Skilled and Labourers	50	(30)	172	(56)	25	(35)
Clerical and Shop Assistants	17	(10)	42	(14)	18	(25)
Total	169	(100)	308	(100)	71	(100)
B. Girls						
Apprentices, Learners, etc.	2	(5)	4	(4)	4	(13)
Semi-Skilled and Labourers	14	(35)	49	(45)	9	(30)
Clerical and Shop Assistants	24	(60)	55	(51)	17	(57)
Total	40	(100)	108	(100)	30	(100)

TABLE VI

S. Modern School Leavers Classified by Age and Number of Job Changes

A. Boys		No. who left last job		
Age	*No. of Changes*	*Voluntarily*	*Dismissed*	*Total*
15	1 or 2	32	10	42
	3 or 4	1	2	3
	More than 4	—	—	—
All Aged 15		33	12	45
16	1 or 2	49	17	66
	3 or 4	8	3	11
	More than 4	4	1	5
All Aged 16		61	21	82
17	1 or 2	74	30	104
	3 or 4	27	13	40
	More than 4	7	13	20
All Aged 17		108	56	164
All Boys		202	89	291
B. Girls				
15	1 or 2	21	8	29
	3 or 4	2	—	2
	More than 4	—	1	1
All Aged 15		23	9	32
16	1 or 2	67	21	88
	3 or 4	14	5	19
	More than 4	3	2	5
All Aged 16		84	28	112
17	1 or 2	81	23	104
	3 or 4	42	6	48
	More than 4	25	13	38
All Aged 17		148	42	190
All Girls ...		255	79	334

TABLE VII

Reasons Given for Leaving Last Job

	Left Voluntarily					*Dismissed*		
No. of changes	*Not enough money*	*Inconvenient hours or unhealthy*	*No prospects*	*Left District*	*Others*	*Redundant*	*Unsuitable*	*Industrial Misconduct*
A. Boys								
1 or 2 ...	19	12	27	13	84	14	18	25
3 or 4 ...	6	10	2	1	17	2	7	9
More than 4	2	1	—	—	8	5	3	6
All Boys	27	23	29	14	109	21	28	40
B. Girls								
1 or 2 ...	16	19	17	5	172	24	22	6
3 or 4 ...	4	8	3	1	42	5	4	2
More than 4	1	8	2	1	16	3	9	4
All Girls	21	35	22	7	230	32	35	12

TABLE VIII

Reasons given (where known) for leaving jobs, prior to last change

	Left Voluntarily					*Dismissed*		
No. of changes	*Not enough money*	*Inconvenient hours or unhealthy*	*No prospects*	*Left District*	*Others*	*Redundant*	*Unsuitable*	*Industrial Misconduct*
A. Boys								
1 or 2 ...	10	13	9	1	34	6	8	12
3 or 4 ...	14	13	9	2	45	9	18	21
More than 4	13	3	4	—	36	6	16	28
All Boys	37	29	22	3	115	21	42	61
B. Girls								
1 or 2 ...	7	5	6	1	46	9	7	1
3 or 4 ...	7	11	5	2	75	13	13	8
More than 4	15	22	3	3	93	22	32	11
All Girls	29	38	14	6	214	44	52	20

E.P.U. AND THE FUTURE OF STERLING POLICY

It is worth recalling why Britain viewed the original proposals for a European Payments Union with suspicion and fear. It was not that she was unprepared to risk losing gold in trade with other prospective members. There was the possibility that she would be required to settle existing sterling debts through the mechanism to be set up and, therefore, largely in gold. But the continuing danger which she foresaw lay in the transfer of sterling to those countries which would be members of E.P.U. by those countries which would not. This was a danger peculiar to sterling in virtue of the wide, if qualified, transferability which it already possessed. The extent of this transferability is shown by figures recently made available by the Bank of England :

Transfers of sterling made :	1948 (£ million)	1949 (£ million)
By O.E.E.C. countries to countries outside the sterling area	45	48
By countries outside the sterling area to O.E.E.C. countries	85	100
By O.E.E.C. countries to each other	56	48
By countries outside the sterling area and O.E.E.C. to each other ...	54	72
Total	240	268
Of which :		
Under automatic facilities	88	144
Under administrative facilities	152	124

Source : Report of the Bank of England for the year ended Feb. 28th, 1950.

These figures reveal a net payment of sterling from non-members to members of E.P.U. amounting to £40 million in 1948 and to £52 million in 1949. If the latter were to adopt a system of settlement in gold, Britain might find herself losing gold although she herself had a surplus with her fellow-members. The danger could take three shapes :

(*a*) Sterling received by members from non-members would become subject to settlement in gold in certain cases where no such danger had existed before. This would apply to transfers from non-members to Italy, Norway and Sweden ; for these countries were prepared to hold sterling without limit.

(*b*) Sterling received by members from non-members might become subject to gold settlements earlier than under existing sterling agreements. This could apply to five countries which were prepared to hold sterling, before demanding gold, up to the amounts shown.

Belgium ...	£27 million[1]	(Agreement, March 1948)
Netherlands	£50 ,, [2]	(,, Sept. 1948)
Portugal ...	£10 ,,	(, April 1949)
Switzerland...	£5 ,,	(,, March 1946)
W. Germany	£7.5 ,,	(,, July 1949)

(*c*) Sterling received by members from non-members would become freely transferable among members. In default of this, non-members could readily be allowed to pay sterling to ' safe ' members, who either claimed no gold points or whose holdings were well within them. But if sterling thus transferred is free to be passed on to less 'safe' members, it is involved in a greater risk of giving rise to a gold settlement. To take an example, before E.P.U. Britain could readily allow Egypt to pay for imports from Sweden in sterling, which could only accumulate in Swedish sterling balances.[3] But if E.P.U. allowed the sterling mounting up to be freely transferred to any other member, perhaps to Switzerland or Belgium, it would soon involve Britain in a loss of gold additional to any that might arise from her own deficit with E.P.U.

[1] £12 m. + certain debts due to U.K. } Hence these limits may be reduced as the
[2] £5 m. + certain debts due to U.K. } debts are discharged.

[3] Of course, any undue accumulation would bring requests for convertibility from Sweden.

The peculiar danger to sterling inherent in the E.P.U. proposals was that they would widen the existing transferability of sterling perhaps too far and present it with penalties which might cause it to shrink. In order fully to understand the danger, it is necessary to ask how far present arrangements do allow sterling to be transferred between countries not included in the sterling area. This will not only help to explain the British attitude before E.P.U. was adopted but may also throw light on its possible consequences; for, as we shall see, the final form of E.P.U. does nothing to remove the dangers which it imposes on sterling. In particular the transferability of sterling, as it now stands is not to be exactly identified with the system known as the Transferable Accounts Area. This may be seen from a resumé of the changes which have taken place is the system of sterling payments since August 1947. On the eve of the convertibility crisis of that month a clear distinction existed between the Transferable Accounts Area,[1] within which sterling could be transferred automatically in settlement of current transactions, without the prior consent of the Bank of England, and the Bilateral Area,[2] within which such transfers of sterling as countries wanted to make to others within or outside it, had to be sanctioned by the Bank. Had E.P.U. been introduced into this framework, a wide area of the world would have been free to flood it with sterling. The suspension of sterling convertibility withdrew the rights of both areas to convert currently earned sterling into dollars. But it also involved some modification of the Transferable Accounts mechanism. Excessive accumulations of sterling, which might either become convertible into gold under existing agreements or might lead to pressure from their owners for convertibility, had to be prevented : and this involved a closer watch on transfers into certain countries' accounts of sterling from third countries. Accordingly, bilateral agreements were renegotiated to allow sterling to be transferred by a member of the Transferable Accounts Area only to third countries agreed between the parties. This provision is now in force with all those countries which were members of the Transferable Accounts Area at the time of the convertibility crisis, except Iran, Egypt, Finland, Ethiopia and Siam; and it has been included in agreements with Russia, Western Germany, Poland and Chile, which subsequently joined the Transferable Accounts Area. Israel, which crossed from the sterling area to the Transferable Accounts Area, was conceded the unique privilege of automatic transferability for £200,000 a month.

The new formula, ' transferability of sterling only to agreed third countries ', makes it far more difficult to tell with what freedom sterling can be transferred to those Transferable Account countries which belong to E.P.U. by those which do not. It is simply not known who the ' agreed third countries ' are; and presumably they are always changing. Five countries alone of the Transferable Accounts Area are known[1] to retain the right to transfer sterling freely to any other country within that area. The remainder are known to possess rights to transfer sterling to certain other members; but the identity of these others is not known. It seems likely from the Bank of England figures that these rights were extended during 1949; for in that year the amount of automatic transfers rose by £56 million[2] over 1948 and of administrative transfers fell by £28 million. But it is not known who received the benefit of the greater freedom. If it was extended mainly to prospective E.P.U. countries, the risks of making sterling convertible within E.P.U. would be thereby lessened; for they would have been already undertaken voluntarily by Britain's own action. But if it was to countries outside E.P.U. that automatic transferability was extended in 1949, the risks involved in E.P.U. would be thereby increased. Perhaps the latter is the more probable; transfers made by O.E.E.C. countries to each other fell by £8 million in 1949, while transfers to O.E.E.C. countries by countries outside rose by £15 million. It should be pointed out that it is not only through members of the Transferable Accounts Area that sterling could leak into the E.P.U. mechanism. The same formula as has been written into agreements with them, providing for ' transferability only between agreed third countries ', is also to be found in arrangements made with Switzerland and Peru, neither of whom have transferable accounts. The Bank of England records that the countries which made most use of the facilities given them to transfer sterling were in 1948, France, the Dutch Monetary Area, Norway, Italy and Finland, and, in 1949, the Dutch Monetary Area, Egypt, Italy and Denmark. Of these, neither France nor Denmark have transferable accounts.

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[1] Consisting of Belgian, Dutch and Portuguese Monetary Areas, Italy, Norway and Sweden, on the one hand, who would subsequently enter E.P.U., and on the other, the Spanish Monetary Area, Finland, Czechoslovakia, Argentine, Brazil, Uruquay, Egypt, Iran, Ethiopia, Siam and Canada. Canada was excluded on the suspension of convertibility, from which she was exempted.

[2] Consisting of Austria, France, Denmark, Greece, Switzerland, Liechten, Turkey, Bulgaria, Hungary, Poland, Rumania, Yugoslavia and China.

The changes which have taken place in the sterling payments agreements since August 1947 have made it impossible for the layman to discover where the area of automatic transferability begins and ends. Nevertheless the figures recorded by the Bank of England are enough to show that there is some substance in the British claim that sterling occupies a special position. To establish convertibility within the O.E.E.C. countries would indeed lose much of its virtue if it had to be compensated by a restriction of the freedom with which sterling could already be used in multilateral payments. To the difficulty solutions were offered, first, by Britain's proposal in amendment of Polonius :

' Never a borrower but a lender be,'

and finally, by the Ansiaux scheme for a sterling option. The first would have been no more than a bargain between Britain and an E.P.U. excluding her. Its terms would have allowed her to settle debts with E.P.U. members through her existing sterling system, provided that she demanded no gold from them should they be in debt to her, but extended credit instead. This was so obvious a bargain that it was soon dropped in favour of the Ansiaux proposal, which introduced the sterling option. Countries were to have the right to choose one of two ways in which to receive settlement of any sterling they might have accumulated from one clearing to another; the accumulation could be dealt with either under existing sterling arrangements or through the E.P.U. mechanism, the creditor choosing either to hold sterling or to exchange it for a balance with E.P.U. This would have demanded concessions from Britain. If sterling was to stand a chance of being opted for in lieu of E.P.U. units, it would have to be made at least as attractive. In particular, no sterling agreements would be able to be retained, which provided for unlimited holdings of sterling by its creditors. Nevertheless it would have left Britain free to negotiate agreements bilaterally with E.P.U. members persuading them to hold sterling to certain limits before invoking the E.P.U. machinery and the possibility of gold settlements which its use might involve. This possibility would thus be postponed further for sterling than for less vulnerable currencies, and the relative freedom of transfers of sterling from countries outside E.P.U. to countries inside could be maintained with less risk. E.P.U. countries with sterling holdings might be ready to accept such arrangements for the sake of preserving their trade with countries outside, which might otherwise be hampered if the transferability of the latter's sterling were to be restricted.

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[1] Known, in so far as no published agreements have modified the rights they enjoyed in August 1947.

[2] Some of this could reflect a desire to move out of sterling prior to devaluation, but since administrative transfers fell, it is likely that automatic facilities were tending to replace them.

But as it turns out, the sterling option gives no such privilege to sterling. It has been generalised to include any currency within E.P.U. Any member has the right to hold in lieu of E.P.U. units, not only sterling, but any other E.P.U. currency, provided only that it has a surplus in that currency. This hint that the option is no longer regarded as a concession to some unique feature of sterling is confirmed by a much more important qualification surrounding it. Holdings of sterling and other currencies opted for by members having surpluses in them are to count exactly as E.P.U. units for the purpose of calculating when gold settlements become due. Settlements in gold are to be made no later if a creditor chooses to hold sterling than they would be if he chose to hold a balance with E.P.U. This means that the sterling option can be of no use to Britain in reducing the likelihood of gold payments. She cannot persuade other E.P.U. members to postpone their claims to gold by agreeing to hold sterling to some limit before exercising their rights under E.P.U. All that would be open to her would be to negotiate gold points bilaterally to come into operation in settling holdings of sterling before the gold points fixed in the E.P.U. mechanism for clearing multilateral positions. This can probably be disregarded.

If the sterling option in its agreed form is not designed to give an advantage to sterling, it is reasonable to ask what the point of it is. If the advantage which it was originally thought to embody has been whittled away, why is it preserved ? Surely, like some useless functionary, it can only get in the way ? Or can it be that it carries an advantage, not to sterling, but to other currencies ? It seems that it does. Countries will want to hold a national currency instead of E.P.U. units if and only if it is in some ways more attractive. Thus they might tend to opt for the stronger currencies when they happened to achieve a surplus in them and turn their surpluses with the weaker into E.P.U. units. But this practice will be discouraged by the provision that all holdings of national currencies shall be sold in exchange for E.P.U. Units after two years. But there is another reason why countries might opt to hold a national currency instead of E.P.U. Units; and that is that it might be more freely available. This is true of sterling. While E.P.U. Units are available for spending in E.P.U. countries only, sterling can be used under existing arrangements with various degrees of freedom throughout a much wider area. The sterling option preserves these facilities. If there were no option a surplus with an E.P.U. member would only be available to finance a deficit with another member. Net creditor positions at the end of a period, in so far as they would not have to be settled in gold under E.P.U. rules, could be run down in the next period only by spending them in E.P.U. Countries. But if a creditor in sterling can choose to retain his sterling, he will have a wider choice of country in which to spend it in the next period than if he had been compelled to hold it in E.P.U. Units spendable only within E.P.U.

It turns out that the sterling option is a concession by rather than to Britain. Originally cast for the role of jailor vigilant to prevent an escape of sterling, it has now assumed the guise of the janitor who may fling open the door to its wider use. This quiet metamorphosis may reflect a change in the direction of official thinking about the future of sterling. Till recently the British negotiators were worried that through existing arrangements sterling would get into the E.P.U. mechanism. They have now accepted an arrangement which will allow it to get out. They now feel that whatever may come in by the entrance will do least damage if the exit is held open. But it must be pushed wider yet. If the future of sterling is conceived in these terms, as the logic of the sterling option implies, there is still some way to go in extending the freedom with which members of E.P.U. can get rid of any sterling, which may accrue to them, into the outside world. The Bank of England's figures show that in the last two years there has been a net influx of sterling into the countries concerned in E.P.U. from outside. Moreover, the net influx increased by £12 million in 1949. Evidently if the sterling area's gold reserves are to be guarded from the danger of loss in settlements under E.P.U.[1] this trend must be reversed and the influx stopped. Members of E.P.U. must be encouraged to use the sterling option and to transfer sterling outside E.P.U.; and this requires, to begin with, that their rights to do so should be widened. This they will in any case demand. The British formula allowing transfers to be made to agreed third countries, presumably gives less freedom to some than to other members of E.P.U. to use sterling for payments

[1] Settlements, that is, additional to any which arose through a sterling area deficit with E.P.U.

outside E.P.U. itself; and discrimination of this sort is not likely to be thought consistent with the new multilateral spirit in Western European trade. Moreover, it would be fruitless to try to preserve it. Suppose that under the existing system of sterling payments Sweden is free, but France is not, to transfer sterling to Egypt. After the introduction of E.P.U., this discrimination could be preserved only in theory. France would in effect be able to transfer sterling to Egypt via Sweden, to whom under E.P.U. she can freely transfer sterling for current purposes.

Evidently the sterling system will need to be more than formally amended as a result of the establishment of E.P.U. The agreements with Italy, Sweden and Norway, which prescribe no limit to the amount of sterling that those countries will hold, are obviously inconsistent with the new dispensation. The gold points agreed with Portugal, Western Germany, Holland, Belgium and Switzerland will be superseded by the E.P.U. rules, and this must be formally recognised. But more important will be the task of implementing the new sterling policy which will now be needed. The outcome of the negotiations has conceded nothing to the current position of sterling.[1] They have only provided that those who earn it may keep it available for spending outside E.P.U. Two courses are therefore open to Britain by which she may protect herself from the loss in which her special position may involve her. One is to make sterling scarce within E.P.U. by deliberately restricting the freedom with which she allows it to be transferred to members of E.P.U. by countries outside. Sterling seems likely to some extent to become scarce within E.P.U. as a result of devaluation, and this will make the second course, which is obviously more desirable, also easier to pursue. This will be to make sterling in the hands of E.P.U. countries more widely available for making payments in the world outside the union. Such a policy must begin by making all members of E.P.U. equal in the freedom with which they can transfer their sterling outside. But this is not the only objective. As soon as it has been achieved, the transferability of sterling must be progressively increased for E.P.U. countries, in order that they may be given ample opportunity to transfer their sterling abroad instead of holding it for settlement within E.P.U. Yet such a policy would not be devoid of risk. When sterling which has entered the accounts of E.P.U. countries has been duly ushered out again into the outside world, it remains an active agent of possible harm. For coming finally to rest in the hand of countries outside both E.P.U. and the sterling area it may generate from that direction demands for convertibility into gold. To avoid the risk of sterling accumulating inside E.P.U. we may encourage its transfer outside, but this begets a new risk by adding to existing balances of sterling in the hands of those outside; we may flatten the wrinkles in a carpet, but as fast as we tread on them, new ones appear. Nevertheless it is better to have sterling accumulating outside E.P.U. than inside. Inside E.P.U. it passes out of the control of the guardians of our monetary reserves and is subjected to settlement under rules which they cannot influence. Sterling accumulating outside E.P.U. is more amenable; it is settled under bilateral agreements to which they are themselves a party, and often under the direct administrative supervision of the Bank of England. This, of course, is the last ditch; it may be that sterling will not accumulate in the world outside E.P.U., even though a policy should be adopted to extend the freedom with which members of the Union may transfer it there. The areas of the outside world which might acquire sterling as a result would be Latin America and the Middle East; and there is some evidence that in these quarters it is, at present, scarce. The sterling holdings of the Argentine Central Bank were reported to have declined from £60 m. to £12 m. between June 1949 and April 1950. More recently, a recovery in the Argentine exchange position has been claimed; yet under cover of a reform of its complex exchange structure, the peso was further devalued in September. In April the value of the Egyptian pound was lowered by the introduction of a free rate; and this may indicate that she also is short of sterling. Any transfers which are made to these areas by members of E.P.U. may be more gratefully than grudgingly received.

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[1] Britain has, of course, received a concession concerning accumulations of sterling which existed before the introduction of E.P.U., whereby she will lose no gold through their being thrown into the clearing; but this concession is exhausted with the existing balance. Sterling accumulating since the introduction of E.P.U. receives no preferential treatment such as originally seemed due to its wider transferability.

The stage, then, seems set for a qualified movement towards greater freedom in sterling policy. The movement will be qualified because the new freedom will be confined to members of E.P.U. for the purpose of it is to persuade them to use their sterling for payments to third countries rather than hold it for settlement under the rules of E.P.U. The effect of this liberalisation on the amount of sterling acquired by countries outside E.P.U. and the sterling area must be awaited before any further step is taken. Meanwhile Britain has accepted the risks of E.P.U. without compensation and it remains for her to minimise them by extending the transferability of sterling. In this way she could make a bigger advance towards multilateralism than is made by the birth of E.P.U. itself.

J. A. SARGENT.

A NOTE ON DEFENCE EXPENDITURE

The following tables bring together recent information on the defence expenditure of Western Europe, the U.S.A. and of the U.S.S.R. and her satellites. Defence expenditure in Western Europe in 1948 and 1949 was, on the average, equal to about 4 per cent of the national income and in the U.S.A. to about 5.5 per cent. In U.S.S.R. in 1949 it was about 10–12[1] per cent of the national income and in Eastern Europe it averaged 6.7 per cent. The difference revealed by these figures can to some extent be accounted for by the narrow concept of national income used by the Soviet Union which, it is believed[2] takes account only of the material product—mainly from industry and agriculture—and excludes most service activities. Moreover, it would appear[3] that the ' price spread ' between producer (relatively cheap goods) and consumer goods (relatively expensive goods) in the U.S.S.R. is considerably greater than in the countries of the western world. The existence of this ' price-spread ' implies that the estimates of the national income of the U.S.S.R. ought to be deflated in order to be comparable with the estimates of the national incomes of western countries. Unfortunately, the price spread in the U.S.S.R. in comparison with, for example, the U.S. cannot be calculated since information on prices in the U.S.S.R. is very limited. It would appear, however, that the defence expenditure of the Soviet Union expressed as a proportion of the national income would be lower if account could be taken of the ' price spread ' of goods in the U.S.S.R.[4] Similar considerations probably apply to the estimates of defence expenditure in Eastern Europe.

Nevertheless, the difference between the shares of the national income going to defence is considerable and there is reason to believe that the Soviet budget figure[5] does not adequately reveal the full defence expenditure, since a part of the expenditure allocated to ' Investment ' and ' Other Expenditure ' in the Budget estimates probably represents defence projects. Again, it is probable that in one important section of defence expenditure namely the pay of the armed forces, Soviet ' Prices ' are lower than those of western countries. It is likely that the Soviet Union would have considerably more men under arms than the West for an equivalent expenditure on pay to the armed forces. The proportion of defence expenditure spent on the pay of the armed forces was in 1948, 2.5 per cent of the national income of the U.K. and 1.7 per cent of the national income in the U.S. The Russian proportion cannot be estimated but it is not likely to be a lower proportion

[1] This is very much more than pre-war German military expenditure : 1934, 1.7 per cent of N.I. 1935, 3.4. per cent of N.I. 1936, 10.8 per cent 1937, 11.2 per cent and 1938, 15.8 per cent of N.I. See Nazi War Finance and Banking. Otto Nathan, p. 97.

[2] Bank for International Settlements. 20th Annual Report, June, 1950, p. 41.

[3] Marcin R. Wyczalkowski. *The Soviet Price System and the Rouble Exchange Rate.* I.M.F. Staff Papers, Vol. 1, No. 2, Sept. 1950, p. 210.

[4] ' If defence expenditure was affected by changes in prices this expenditure in 1950 might have been in real terms smaller than in 1940.' *Vide* A. Baykov and G. R. Barker. Financial Developments in the U.S.S.R. Bulletin on Soviet Economic Development. No. 3 Aug., 1950. University of Birmingham.

[5] 1950 Estimate.

TABLE I

Defence Expenditure of Western European Countries and Certain Others

COUNTRY	1948 or 1948–49			1949 or 1949–50				1950 or 1950–51			
	Expenditure in National Currency	U.S. dollars	Percentage of Net National Income at Factor Cost	Expenditure in National Currency	U.S. $ at Post Devaluation rates	% of National Income	U.S. $ pre-devaluation rates	Expenditure in National Currency*	U.S. $	% of National Income	U.S. $ at pre-devaluation rates
	Million	Million									
Brussels Pact Countries											
Great Britain	£ 753	3034	7.6	740	2072	7.4	2982	859	2405	8.9	3461
France	Fr. fc. 248580	956	4.6	350000	1003	5.0	1610	500000	1432	7.8	2328
Belgium	B. fc. 4233	96.5	1.7	6280	125	2.5	143	6685	133	3.1	152
Holland	Fl. 738	278	6.0	850	223	6.1	320	986	259	6.7	371
Luxemburg	—	—	—	Lux. fc. 130	3	1.5	3	—	—	—	—
Other Atlantic Pact Countries											
Ireland	—	—	—	£ 4	11	1.1	16	—	—	—	—
Norway	N. kr. 210	42	2.2	266	37	2.5	54	300	42	2.7	60
Denmark	D. kr. 300	62	1.9	316	46	1.9	66	353	51	2.1	73
Italy	Lir. 292800	511	4.8	250000	400	3.8	434	296100	473	4.7	515
Portugal	—	—	—	1400	48	—	56	—	—	—	—
Iceland	—	—	—	—	—	—	—	—	—	—	—
Other Countries											
Sweden	S. kr. 916	254	4.3	855	165	3.6	237	858	165	3.9	238
Switzerland	Sw. Fc. 420	97	2.4	485	112	2.7	112	460	106	2.7	106
Turkey	Lira 390	138	5.4	460	163	5.8	163	440	156	4.7	156
Total		5469			4408		6196		5222		7460

Sources: 20th Annual Report of the Bank for International Settlements 1941–50, p. 41. E.C.E. Report. Survey of Europe in 1949. The Economist.

* Inclusive of recent increases.

of defence expenditure than that of the U.K. and U.S. and probably formed 4 per cent of the national income.

The estimates of defence expenditure in Tables I and II are expressed in U.S. dollars converted at the official rate of exchange as well as in national currencies. It will be noticed that in 1949 the defence expenditure of Western Europe exceeded that of Eastern Europe (excluding U.S.S.R.) by 75 per cent, but that the defence expenditure of the U.S.S.R. was 12.7 per cent greater than that of the U.S.A. and Canada, while the combined expenditure of the West was approximately equal to the combined expenditure of Eastern Europe and the U.S.S.R. ($17.5 billion). There is reason to believe, however, that because of the ' price spread ' in Soviet goods the official exchange rate of the U.S.S.R. is seriously overvalued in relation to the dollar. A precise estimate of the rouble exchange rate cannot be made for lack of data but it is thought that a rate of 10 roubles to the U.S. dollar gives a good approximation of the 'correct' exchange rate.[1] The defence expenditure of the U.S.S.R., based on the above assumption and converted at this rate of exchange, becomes $7.9 billion in terms of the U.S. dollar. It would thus appear that the defence expenditure of the U.S.A. exceeds that of the U.S.S.R. by 62 per cent, while total Western defence expenditure appears greatly to exceed that of the U.S.S.R. and her satellites (by about 70 per cent), although it must be remembered that defence expenditure in the U.S.S.R. excludes many items that are included in the expenditure of the U.S.A. and Western Europe.

The defence expenditure of Western Europe and the U.S.A. remained at the 1948–9 level until the middle of 1950. The beginning of the Korean war led to a change in defence estimates, which were increased in the U.S.A., Great Britain and France. The U.S. estimates envisage an increase in expenditure to about 10 per cent of the national income. The immediate British increase means that Britain will spend about 8—9 per cent of her national income on defence and the French increase take her share up to 7—8 per cent. The British memorandum of August 4, 1950, proposes that the U.K. should spend about 10 per cent of its income annually—an addition of £300 million to the present estimate, if the U.S. renders ' substantial ' assistance in addition to Marshall Aid. The French memorandum of August 6 takes a similar attitude.

It would appear, therefore, that Western Europe, unaided, is finding difficulty in increasing defence expenditure.[2] Any further increase in defence expenditure might call for the reimposition of physical controls and the re-emergence of a war-economy. It is, therefore, necessary to ask how the defence estimates are spent. Is efficient use being made of the resources available ? More information is needed on the efficiency of the defence expenditure already allocated before we can judge whether greater sacrifices are called for.

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[1] See Wyczalowski, *op. cit.*, p. 219.

[2] Cf. Carter. Rearmament and Public Finance in Britain, where the difficulty of increasing British expenditure is discussed. *Public Finance*, Vol. 5, No. 3, 1950, pp. 199–221.

TABLE II

Defence Expenditure of Eastern Europe
Estimates for 1949 *or* 1950‡

Country	*Defence Expenditure in National Currency**		*In U.S.A. $ †*	*As % of National Income **
	Milliards		*Million*	
Albania	Lek.	1.2	—	10
Bulgaria	Lev.	14.2	49	3.5
Czechoslovakia	Koruna	9.6	191	4.5
Hungary	Forint	1.2	101	4.5
Poland	Zloty	129.7	1272	5.75
Roumania	Lue	52.3	342	7.25
Yugoslavia	Dinar	28.4	568	11.5
Russia 1947, 67 mill. 1948, 66 „	Rouble	79	15000	10—12
Total			17523	

* *Source.* 20th Report of Bank for International Settlements, 1949–50, p. 42.

† Exchange rates did not alter with the general devaluation, Sept., 1949.

‡ The estimates have been converted at official rates of exchange as given by the I.M.F. International Financial Statistics.

TABLE III

Defence Expenditure of U.S.A. and Canada

Year	Country	Expenditure in National Currency	In U.S.A. dollars	As % of National Income
1948–49 ...	U.S.A.	$11128	11128	5.0
	Canada	$350	350	3.0
Total ...			11478	
1949–50 ...	U.S.A.	13000	13000	5.9
	Canada	385	350	3.0
Total ...			13350	
1950–51 ...	U.S.A.	26722[1]	26722	10.0
	Canada	629[1]	570	5.0
Total ...			27292	

[1] Inclusive of recent increases.

Sources. U.S. Dept. of Commerce: Survey of Current Business. The Economist.

KATHLEEN M. LANGLEY.